

FDIC State Profile

SUMMER 2003

Virginia

Virginia's economic growth remains weak.

- After showing some marginal improvement in job growth in mid-2002, Virginia saw renewed employment losses by late in the year (see **Chart 1**). (In metropolitan areas, **Danville** and **Charlottesville** were the only Virginia MSAs to see improving employment performance during late 2002). Since the start of the recent recession in March 2001, employment in the state has fallen by 1.7 percent (nearly 70,000 jobs) and initial unemployment claims have remained persistently high. Both the US and Virginia economies displayed renewed signs of weakness in early 2003, indicating that the economic outlook for Virginia likely remains uncertain.
- Although labor market conditions varied across the state, the highest fourth-quarter 2002 county unemployment rates continued to be found in south-central areas of the state, where key manufacturing industries such as textiles and apparel and furniture, have been hit hard by the recession. Although this region of the state has traditionally experienced high rates of unemployment, levels have risen by more than one percentage point in some areas over the past year, ending third-quarter 2002. In contrast, some south-western counties in the state experienced significant declines in jobless rates over the past year. These declines, however, may not be the result of improving economic conditions, but may be due to labor force shrinkage as some of the unemployed left the area to seek jobs elsewhere.
- The recent recession has had a substantial impact on Virginia's state finances. Tax revenue collection growth in Virginia peaked in 1999 and subsequently declined as the economy weakened (see **Chart 2**). During 2002, collections actually declined by nearly 8 percent. Declines in revenue contributed to the rise in the state's budget deficit. The magnitude of Virginia's budget difficulties was reflected by Governor Warner's October 2002 announcement of over \$850 million in spending cuts, which would include the layoffs of 1,800 state employees. With modestly improving economic conditions in late 2002, the erosion in tax collections appeared to abate as well.

Chart 1: Employment in Virginia Remains Flat

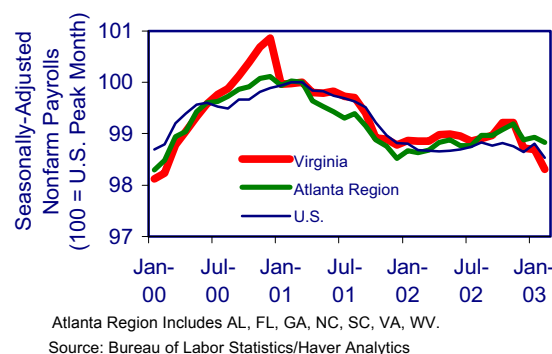
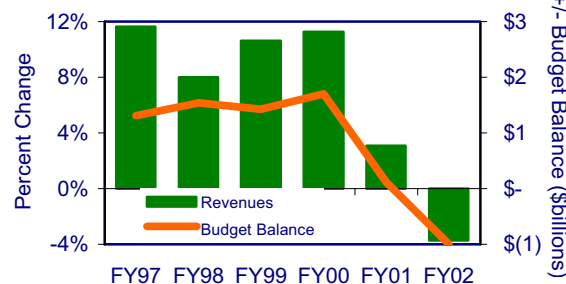


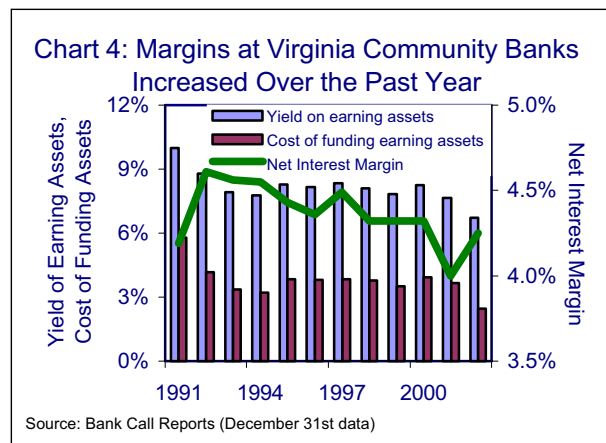
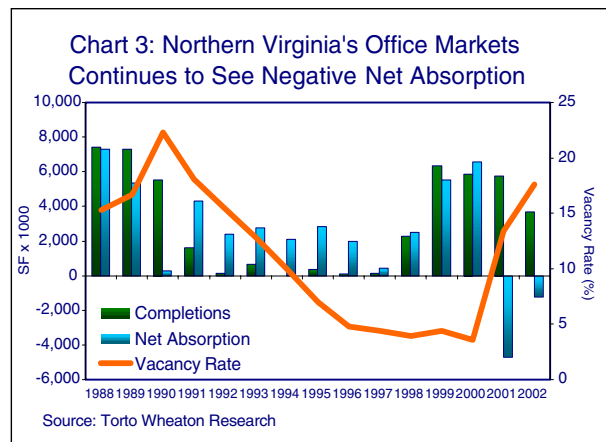
Chart 2: Declining Tax Revenue Result in Budget Deficit



- The recent recession had an adverse affect on Northern Virginia's commercial real estate markets as absorption rates declines. From a low of 3.2 percent in 2000Q2, Northern Virginia's office vacancy rate rose sharply, climbing to 16.7 percent two years later in 2002Q3. Some sub-markets, such as **Herndon** and **Reston**, had office vacancy rates in excess of 30 percent in late 2002 (see **Chart 3**).

Insured institutions headquartered in Virginia experienced solid earnings performance, but deterioration in asset quality may be nearing.

- Virginia community banks¹ achieved record performance in 2002. On a merger-adjusted basis, net income grew 29 percent year-over-year to \$313 million, up from \$243 million at December 31, 2001. Consequently, profitability measures at these banks were also on the rise as average return on assets (ROA) and net interest margins (NIM) both experienced gains during 2002. ROA gained 12 basis points to 1.14 percent while NIMs increased 25 basis points to 4.25 percent (see **Chart 4**). Gains in interest income along with manageable provision expenses led to the increase.
- Although down from its 12-year peak of 16 percent at year-end 1999, loan growth has remained robust throughout this economic downturn. At December 31, 2002, total loans grew 14 percent year-over-year with the majority of the increase occurring in the nonresidential real estate loan segment. Among community banks headquartered in Virginia at year-end 2002, nonresidential loans comprised close to 19 percent of assets, up from 17 percent a year ago.
- Loan portfolio earnings were augmented by the shift into higher-yielding commercial real estate (CRE) loans. While the increased exposure has bolstered profitability, community banks headquartered in the state also may have heightened their balance sheet risk. Among MSAs with at least five community institutions, the **Norfolk, Roanoke,** and **Washington, DC-MD-VA-WV** MSAs appear most vulnerable to a renewed downturn. As of fourth quarter 2002, institutions with concentrations in CRE (25 percent or more of total assets) accounted for 71 percent of the banks in these MSAs. Although non-current CRE loan levels and



charge-offs were manageable, rising office vacancy rates, similar to those seen in the Northern Virginia market, could have a disproportionately negative effect on delinquency levels at community banks in these areas.

¹ Community banks have assets less than \$1 billion and exclude specialty institutions and thrifts.

Virginia at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	146	154	162	168	174
Total Assets (in thousands)	151,296,504	106,817,095	91,189,054	102,760,122	90,714,996
New Institutions (# < 3 years)	9	17	26	24	17
New Institutions (# < 9 years)	39	37	38	34	25
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.30	8.33	8.93	9.04	8.89
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.26%	1.75%	1.71%	1.41%	2.12%
Past-Due and Nonaccrual >= 5%	14	16	14	11	19
ALLL/Total Loans (median %)	1.21%	1.15%	1.17%	1.11%	1.20%
ALLL/Noncurrent Loans (median multiple)	3.01	2.52	2.23	2.12	1.93
Net Loan Losses/Loans (aggregate)	1.24%	1.11%	1.03%	0.58%	0.92%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	14	14	15	25	11
Percent Unprofitable	9.59%	9.09%	9.26%	14.88%	6.32%
Return on Assets (median %)	1.09	0.90	1.09	1.09	1.16
25th Percentile	0.80	0.53	0.61	0.57	0.88
Net Interest Margin (median %)	4.14%	3.97%	4.28%	4.29%	4.27%
Yield on Earning Assets (median)	6.68%	7.64%	8.19%	7.74%	8.13%
Cost of Funding Earning Assets (median)	2.52%	3.83%	4.03%	3.58%	3.88%
Provisions to Avg. Assets (median)	0.23%	0.19%	0.19%	0.16%	0.15%
Noninterest Income to Avg. Assets (median)	0.64%	0.65%	0.62%	0.59%	0.60%
Overhead to Avg. Assets (median)	2.92%	3.01%	2.96%	3.03%	2.94%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	77.77%	77.84%	79.59%	79.12%	73.27%
Loans to Assets (median %)	65.58%	66.42%	67.02%	65.54%	63.09%
Brokered Deposits (# of Institutions)	31	26	18	19	18
Bro. Deps./Assets (median for above inst.)	2.86%	5.59%	8.42%	2.87%	2.51%
Noncore Funding to Assets (median)	16.28%	15.42%	15.52%	13.55%	11.89%
Core Funding to Assets (median)	72.90%	73.98%	73.62%	75.34%	76.66%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	19	20	20	22	22
National	37	36	35	35	30
State Member	74	82	88	90	100
S&L	3	3	4	5	5
Savings Bank	13	12	14	15	16
Mutually Insured	0	1	1	1	1
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	61	14,492,394	41.78%	9.58%	
Washington DC-MD-VA-WV PMSA	33	91,133,584	22.60%	60.24%	
Richmond-Petersburg VA	18	34,412,722	12.33%	22.75%	
Norfolk-Virginia Bch-Newport News VA-NC	13	4,868,709	8.90%	3.22%	
Roanoke VA	7	2,834,293	4.79%	1.87%	
Lynchburg VA	5	821,347	3.42%	0.54%	
Danville VA	4	1,152,773	2.74%	0.76%	
Charlottesville VA	3	468,492	2.05%	0.31%	
Johnson City-Kingsport-Bristol TN-VA	2	1,112,190	1.37%	0.74%	